

## TIME-21 Transportation Funding Act

This Fiscal Topic provides information on recent changes to Iowa's transportation funding resulting from the 2008 enactment of SF 2420 (TIME-21 Transportation Funding Act).

### Iowa's Transportation Funds

#### Road Use Tax Fund

The Road Use Tax Fund (RUTF) is established in Chapter 312, Code of Iowa. Prior to FY 2009, revenue sources to the Fund included:

- Motor vehicle fuel taxes
- Motor vehicle registration fees
- Title and salvage title fees
- Motor vehicle use tax (a 5.0% tax collected on the purchase of motor vehicles)
- Underground storage tank fees
- Driver's license fees
- Interest income
- Other items, including title fees, trailer registration fees, and car rental tax

Certain revenues deposited in the Road Use Tax Fund are constitutionally restricted for highway-related expenditures. Section 8, Article VII of the Iowa Constitution states the following:

"All motor vehicle registration fees and all licenses and excise taxes on motor vehicle fuel, except cost of administration, shall be used exclusively for the construction, maintenance and supervision of the public highways exclusively within the state or for the payment of bonds issued or to be issued for the construction of such public highways and the payment of interest on such bonds."

Since the adoption of Article VII, Section 8 by amendment in 1942, the

broad scope and intent of the Section, including what constitutes the "construction, maintenance and supervision of the public highways" and what revenues are considered constitutionally restricted have been challenged. The Supreme Court's interpretation and opinions issued by the Attorney General have allowed the Road Use Tax Fund to be flexibly applied to a variety of highway-related purposes.

In addition to fee increases, SF 2420 replaced the motor vehicle use tax with a one-time fee called the "Fee for New Registration."

Prior to FY 2009, the motor vehicle use tax was used to fund the following items before it was deposited in the Road Use Tax Fund:

- Primary Road Fund – for the Commercial and Industrial Highway Network (CIN)
- Department of Inspections and Appeals – for driver's license revocation hearings
- Underground Storage Tank Loan Fund
- Special License Plate Funds

In addition to the above items, Public Transit Assistance and the Motorcycle Rider Education Fund were also funded from the motor vehicle use tax, but were funded after the use tax was deposited in the Road Use Tax Fund.

Currently, all revenues deposited in the Road Use Tax Fund are distributed by formula to the Primary, Secondary, Farm-to-Market, and Municipal Road Funds and are used by State and local jurisdictions for the construction and maintenance of roads. Before the revenues are distributed, however, various allocations and appropriations are made from the Fund. These "off-the-top" allocations are used to fund programs, equipment purchases, facility improvements, and Department of Transportation (DOT) operations.

After the off-the-top allocations and appropriations are funded from the Road Use Tax Fund, the net revenues are distributed based on a formula as follows:

- 47.5% – Primary Road Fund (State)
- 24.5% – Secondary Road Fund (Counties)
- 8.0% – Farm-to-Market Road Fund (Counties)
- 20.0% – Municipal Road Fund (Cities)

(over)

### More Information

Legislative Services Agency:  
Transportation Funding Flowcharts  
[http://www.legis.state.ia.us/lsadocs/SC\\_Fisc/2009/SFMBM000.pdf](http://www.legis.state.ia.us/lsadocs/SC_Fisc/2009/SFMBM000.pdf)

Department of Transportation:  
TIME-21  
<http://www.iowadot.gov/time21/index.htm>

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### *Transfer of Jurisdiction Fund*

The Transfer of Jurisdiction Fund is established in Section 313.4(6)(a), Code of Iowa. From FY 2004 through FY 2013, following the 47.5% Road Use Tax Fund allocation to the Primary Road Fund, 1.75% of Primary Road Fund moneys are credited to the Transfer of Jurisdiction Fund. The funds are then transferred to cities and counties as follows:

- 75.0% to cities and counties that assumed jurisdiction of primary roads, distributed as follows:
  - 90.0% to Secondary Road Fund
  - 10.0% to Municipal Road Fund
- 22.5% to the Secondary Road Fund (for all counties)
- 2.5% to the Municipal Road Fund (for all cities)

### *TIME-21 Fund*

The Transportation Investment Moves the Economy in the 21<sup>st</sup> Century (TIME-21) Fund is established in Chapter 312A, Code of Iowa. The Fund consists of moneys appropriated by the General Assembly and any revenues credited by law to the Fund. Similar to the Road Use Tax Fund, the TIME-21 Fund allocates revenues to the State, cities, and counties based on the following formulas:

- 60.0% – Primary Road Fund
- 20.0% – Secondary Road Fund
- 20.0% – City Street Fund

### **Changes Made By Senate File 2420**

#### *Fee Increases*

Senate File 2420, enacted during the 2008 Legislative Session, increased motor vehicle registration fees and directs the revenue generated from the fee increase, in addition to the standard fee, in excess of \$392.0 million annually to the TIME-21 Fund.

Senate File 2420 also increased the fees for trailer registrations and titles and salvage titles and deposits the revenue in the TIME-21 Fund. Additionally, the Act increased motorcycle license fees and directs the fee increase, along with the standard fee, to the newly established Statutory Allocations Fund.

#### *Motor Vehicle Use Tax Repeal*

In addition to fee increases, SF 2420 replaced the motor vehicle use tax with a one-time fee called the “Fee for New Registration.” The Fee is equivalent to the motor vehicle use tax of 5.0% of the vehicle purchase.

Unlike the motor vehicle use tax, the Fee for New Registration is a vehicle registration fee and is constitutionally restricted to be spent for highway-related purposes. As a result, SF 2420 created the Statutory Allocations Fund to fund those items previously funded from the use tax. The following sources of revenue are deposited to the Statutory Allocations Fund:

- Driver’s license fees
- Titles and salvage titles (standard fees only)
- Trailer registrations (standard fees only)
- Title and salvage title surcharge
- Car rental tax
- Use tax on mobile homes and manufactured homes and on leased vehicles not subject to registration and titling
- Fee for New Registration for trailers

The items previously funded from the motor vehicle use tax and now funded from the Statutory Allocations Fund are shown below. Senate File 2420 requires the items to be funded in the following order:

- Underground Storage Tank Loan Fund
- Public Transit Assistance
- Motorcycle Rider Education Fund
- Special License Plate Funds
- Railway Finance Authority
- Primary Road Fund (bordering bridges)

After the items are funded from the Statutory Allocations Fund, the balance is deposited in the Road Use Tax Fund.

The Primary Road Fund (for the CIN) and the Department of Inspections and Appeals, also previously funded from the motor vehicle use tax, are now funded from the Road Use Tax Fund.

#### *State, City, and County Share*

Although SF 2420 affected the funding structure of the Road Use Tax Fund, the formula allocations to the State, cities, and counties from the Road Use Tax Fund, Transfer of Jurisdiction Fund, and TIME-21 Fund remain unchanged.

#### *Five-Year Forecast*

The DOT is required to submit an annual report detailing how the Department proposes to improve the State’s transportation system over the next five years. The five-year program is based on projected State and federal revenues and the associated costs of each project. In determining projected revenues, the Department develops a five-year forecast for the Road Use Tax Fund based on the most recent fiscal year data. Due to the various funding changes enacted in SF 2420, it is necessary for the DOT to include the additional funds in the five-year forecast.

The Legislative Services Agency’s current estimate of revenues and expenditures for FY 2009 for the Road Use Tax Fund, Transfer of Jurisdiction Fund, Statutory Allocations Fund, and TIME-21 Fund is available on the General Assembly’s website (see the More Information box on the front page for a link to this information).

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